

Are there tax incentives while paying back student loans?

Yes. Tax benefits are available for certain higher education expenses, including a deduction for student loan interest for certain borrowers. This benefit applies to all loans used to pay for postsecondary education costs, including PLUS Loans.

The maximum deduction is \$2,500 a year. Internal Revenue Service (IRS) Publication 970, Tax Benefits for Higher Education, explains these credits and other tax benefits. You can get more information online at www.irs.gov or by calling the IRS at 1-800-829-1040. TTY callers can call 1-800-829-4059.

The results in the chart below assume that the student is paying the interest charges on any unsubsidized loans and is not capitalizing the interest while in school. If the student is capitalizing the interest, the cumulative payments and total interest charges will be higher than shown in the chart.

| Examples of Typical Direct and FFEL Stafford Loan Repayments | | | | | | | | | | |
|---|---|--------------|-----------------------|--------------|---|--------------|--|--------------|--------------------------|--------------|
| Estimated Monthly Payments and Total Amounts Repaid Under Different Repayment Plans | | | | | | | For Direct Loans Only: Income Contingent ^c <i>Income = \$25,000</i> | | | |
| Initial Debt When You Enter Repayment | Standard <i>Not to exceed 10 years</i> | | Extended ^a | | Graduated ^b <i>Not to exceed 10 years</i> | | Single | | Married/HOH ^d | |
| | Per Month | Total Repaid | Per Month | Total Repaid | Per Month | Total Repaid | Per Month | Total Repaid | Per Month | Total Repaid |
| \$3,500 | \$50 | \$4,471 | Not Available | | \$25 | \$5,157 | \$27 | \$6,092 | \$25 | \$6,405 |
| \$5,000 | \$58 | \$6,905 | | | \$40 | \$7,278 | \$38 | \$8,703 | \$36 | \$9,150 |
| \$7,500 | \$83 | \$10,357 | | | \$59 | \$10,919 | \$57 | \$13,055 | \$54 | \$13,725 |
| \$10,500 | \$121 | \$14,500 | | | \$83 | \$15,283 | \$80 | \$18,277 | \$76 | \$19,215 |
| \$15,000 | \$173 | \$20,714 | | | \$119 | \$21,834 | \$114 | \$26,110 | \$108 | \$27,451 |
| \$40,000 | \$460 | \$55,239 | \$227 | \$83,289 | \$316 | \$58,229 | \$253 | \$72,717 | \$197 | \$84,352 |

Payments are calculated using the fixed interest rate of 6.8 percent for student borrowers for loans made on or after July 1, 2006.

^aThis repayment plan is available to borrowers who have no outstanding balance on a Direct Loan as of Oct. 7, 1998, or who have obtained a Direct Loan after Oct. 7, 1998, and have an outstanding balance on Direct Loans that exceeds \$30,000. The amounts were rounded to the nearest dollar and were calculated based on a 25-year repayment plan.

^bThis is an estimated monthly repayment amount for the first two years of the term and total loan payment. The monthly repayment amount will generally increase every two years, based on this plan.

^cAssumes a 5 percent annual growth (Census Bureau) and amounts were calculated using the formula requirements in effect during 2006.

^dHOH is Head of Household. Assumes a family size of two.

You can also find a repayment calculator at www.FederalStudentAid.ed.gov.

Postponing Loan Repayment (Deferment and Forbearance)

Under certain circumstances, you can receive periods of deferment or forbearance that allow you to postpone loan repayment. These periods don't count toward the length of time you have to repay your loan. You can't get a deferment or forbearance for a loan that is already in default.*

What is deferment?

A deferment is a period of time during which no payments are required and interest does not accrue (accumulate), unless you have an unsubsidized Stafford Loan. In that case, you must pay the interest.

How do I qualify for a deferment?

The most common loan deferment conditions are enrollment in school at least half-time,* inability to find full-time employment (for up to three years) and economic hardship (for up to three years).

Can my parents or graduate and professional degree students defer repayment of their PLUS Loan?

Yes, as long as the loan isn't in default.* Generally, the same deferment provisions that apply to Stafford Loans apply to PLUS Loans. Because PLUS Loans are unsubsidized, **parents and graduate and professional degree students will be charged interest during periods of deferment.** If they don't pay the interest as it accrues, it will be capitalized* (added to their outstanding principal balance).

*See "Important Terms," page 38.

Terms frequently used in discussing financial aid throughout this publication will appear with an asterisk, and you'll find a description of them under "Important Terms," beginning on page 38.



Is there deferment for active military service?

An active duty military deferment is available for loans first disbursed on or after July 1, 2001. The deferment may not exceed three years and is available only for periods when the borrower is serving on active duty during a war or other military operation, or national emergency or is performing qualifying National Guard duty under the same circumstances. Therefore, not all active duty military personnel are eligible for this new deferment.

Documentation for this deferment may include a copy of military orders or a written statement from the commanding officer or personnel officer verifying that you are on active duty under these circumstances.

Payments you made during a period that is now considered to have been covered by a military deferment cannot be refunded to you.

The Loan Deferment Summary Chart below shows Stafford and Perkins Loan deferments for loans disbursed on or after July 1, 1993. For information on deferments for loans received before that date, Direct Stafford Loan borrowers should contact the Direct Loan Servicing Center at **1-800-848-0979**. TTY users should call **1-800-848-0983**. Or, go online at **www.dl.ed.gov**. FFEL Stafford borrowers should contact their lender.

For more information on deferments, contact your lender or the financial aid office at your school.

You **MUST** continue making payments on your student loan until you have been notified that your request for deferment has been granted. If you don't, and your deferment is not approved, you will become delinquent and may default* on your loan.

| Loan Deferment Summary Chart | | | |
|--|-----------------------------|---------------------------|------------------|
| Deferment Condition | Stafford Loans | | Perkins Loans |
| | Direct Loans ^{a,b} | FFEL Loans ^{a,c} | |
| At least half-time* study at a postsecondary school | YES | YES | YES |
| Study in an approved graduate fellowship program or in an approved rehabilitation training program for the disabled | YES | YES | YES |
| Unable to find full-time employment | Up to 3 Years | Up to 3 Years | Up to 3 Years |
| Economic hardship (includes Peace Corps Service) | Up to 3 Years | Up to 3 Years | Up to 3 Years |
| Engages in service listed under discharge/cancellation conditions | NO | NO | YES ^d |
| Active Military Duty (for loans first disbursed on/after July 1, 2001; while borrower is on active duty during a war or other military operation, or national emergency) | Up to 3 Years | Up to 3 Years | Up to 3 Years |

^a For PLUS Loans and unsubsidized Stafford Loans, only principal is deferred. Interest continues to accrue.

^b A Direct Loan borrower who had an outstanding balance on a FFEL Loan first disbursed before July 1, 1993, when the borrower received his or her first Direct Loan, is eligible for additional deferments.

^c Applies to loans first disbursed on or after July 1, 1993, to a borrower who has no outstanding FFEL or Federal Supplemental Loans for Students (Federal

SLS) loan on the date he or she signed the promissory note.* (Note that the Federal SLS Program was repealed beginning with the 1994-95 award year.) Different deferments are available for borrowers with pre-July 1, 1993 loans.

^d More information on teaching service deferments and cancellations can be found online at **www.FederalStudentAid.ed.gov**. At the site, click on the "Students, Parents and Counselors" tab.